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March 8, 2002

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Mr. Patrick M. Mendenhall
UBS PaineWebber
1111 Bagby Street
Houston, TX 77002

Dear Mr. Mendenhall:

I am writing to request information regarding allegations that UBS PaineWebber financial advisors might not have given unbiased advice to Enron employees in the exercise of their stock options.

As I understand it, all Enron employees who chose to exercise company stock options were required to make their transactions through the Emery Financial Group, which was an entity within the Houston office of UBS PaineWebber.¹ I also understand that PaineWebber had a close business relationship with Enron. In fact, PaineWebber served as an underwriter for the initial public offerings for Azurix and New Power, two companies spun off from Enron.²

According to press accounts, Chung Wu, a financial advisor in the Houston office, was fired in August 2001 because he told current and former Enron employees to sell stock they held in Enron.³ In a filing with the National Association of Securities Dealers, Mr. Wu alleged the following:

¹I understand that UBS and PaineWebber merged on November 3, 2000. The allegations about which I am concerned relate to incidents that occurred in 2000 and 2001, and thus, this letter uses the terms "UBS PaineWebber" and "PaineWebber" interchangeably.

²SEC Form S-1/A for NewPower Holdings, Inc. (Aug. 25, 2000); SEC Form S-1/A for Azurix Corp. (May 5, 1999).

³*PaineWebber Analyst Says Enron Advice Led to Firing*, Houston Chronicle (Mar. 6, 2002); *Man Says Advice to Sell Enron Led to Firing*, Associated Press (Mar. 5, 2002); *An Ex-PaineWebber Adviser Claims Firing for Enron "Sell,"* Wall Street Journal (Mar. 5, 2002).

Sent e-mail to more than 10 clients (all Enron past or current employee) on 8/21/2001 @ 12:20 AM expressing concerns on Enron's financial future and advised them to take some money off the table or sell "calls" against their long position. Most of them have very concentrated Enron holdings. Enron management was not pleased and due to the employee stock option relationship UBS/PaineWebber has with them, the pressure came from my corporate office to the branch level (Houston, downtown) to dismiss me. I told the truth to my clients.⁴

Investigators on my staff have interviewed another former PaineWebber financial advisor who made similar allegations. This former PaineWebber employee indicated that advisors in the Houston office were instructed by supervisors not to encourage Enron employees to exercise their stock options and diversify their holdings, even if the employees were overly concentrated in Enron stock. According to this former employee, Emery Financial Group supervisors feared that a large number of Enron employees exercising their options might reflect a lack of confidence in Enron. The former employee indicated that the close business relationship between Enron and PaineWebber might have affected the judgment of PaineWebber advisors when they discussed the exercise of stock options with Enron employees. It has also been alleged that PaineWebber advisors were pressured to sell shares in Enron spinoffs, such as Azurix and NewPower.

I request that UBS PaineWebber respond to the following questions relating to these allegations:

- (1) Were financial advisors in the Emery Financial Group instructed, either explicitly or implicitly, that they should not encourage Enron employees to exercise Enron stock options or otherwise diversify their holdings? If so, who at the Emery Financial Group or UBS PaineWebber made such an instruction, and were senior executives at Enron aware of this instruction?
- (2) Were financial advisors in the Emery Financial Group permitted to advise Enron employees as to whether they should exercise Enron stock options or buy or sell Enron stock? If so, were there any restrictions on the type of advice they could give?
- (3) Were financial advisors in the Emery Financial Group fired for advising Enron employees to exercise Enron stock options or buy or sell Enron stock? If so, please describe the circumstances surrounding any firing and whether anyone at Enron was notified of the firing.

⁴NASDR Public Disclosure Report Summary.

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- (4) In the case of Chung Wu, UBS PaineWebber has stated that he was fired for failing to follow "company policy and regulatory requirements before sending the message to a limited number of customers."⁵ What were the "company policy and regulatory requirements" that Mr. Wu violated? Have all other financial advisors who violated these policies and requirements regarding stocks other than Enron also been fired?
- (5) Were financial advisors in the Emery Financial Group instructed, either explicitly or implicitly, to encourage clients to purchase stock in companies, such as Azurix and NewPower, for which PaineWebber had underwritten the initial public offering?

In addition, I request that UBS PaineWebber provide copies of any documents, e-mails, memoranda, manuals, guidances, or handbooks that describe the permissible financial advice that PaineWebber employees were permitted to give clients in 2000 and 2001. I also request that you provide any records which monitor or track the number of Enron employees who exercised their stock options in 2000 and 2001.

I hope you will provide the information I am seeking by the close of business on March 22, 2002.

Sincerely,



Henry A. Waxman
Ranking Minority Member

⁵*PaineWebber Analyst Says Enron Advice Led to Firing.*